

June 09, 2021

Akums Drugs & Pharmaceuticals Limited: Long-term rating upgraded; outlook revised to Stable; short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Fund Based Working Capital Limits	65.0	65.0	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ (Positive)
Short-term– Non-fund Based Working Capital Limits	10.0	10.0	[ICRA]A1+; Reaffirmed
Long-term/Short-term– Fund Based/Non-fund Based Working Capital Limits	0.0	20.0	[ICRA]AA- (Stable)/[ICRA]A1+; Assigned
Total	75.0	95.0	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Akums Drugs & Pharmaceuticals Limited (ADPL) and its subsidiaries – Pure & Cure Healthcare Private Limited (PCHPL), Malik Lifesciences Private Limited (MLPL) and Maxcure Nutravedics Limited (MNL), while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The rating action factors in an improvement in the credit profile of ADPL, led by the strategic stake purchase by Quadria Capital (QC), a healthcare-focussed PE firm from Singapore. In November 2019, QC purchased a 15.1% stake in the company for a total consideration of approximately Rs. 500.0 crore, of which ~Rs. 180.0 crore was paid to the promoters for secondary share purchase and ~Rs. 320.0 crore were invested in the company. ADPL utilised the funds to reduce its dependence on external borrowings. The same has led to a strengthening of the company's financial risk profile, characterised by a conservative capital structure (estimated gearing of ~0.03 time in FY2021), strong debt coverage indicators (estimated Total debt/OPBITDA of 0.1 times in FY2021) and a strong liquidity profile. Apart from strengthening its financial risk profile, the investment from QC is expected to benefit the company's business profile over the medium term, aided by strategic guidance on enhancing its presence across semi-regulated export markets and improving the performance of ADPL's marketing subsidiaries.

The Covid-19 pandemic led to disruptions in the supply chain of the pharmaceutical industry during February-April 2020. In addition to disruptions to the API supply chain, the Indian pharmaceutical industry was impacted by the nationwide lockdown affecting the transportation and logistics of key raw materials and products. However, with the gradual lifting of lockdowns and restoration of the API supply chain, ADPL was able to benefit from its strong customer relationships and a steady demand for its contract manufacturing operations, aiding it in recovering the revenue lost during the lockdowns to a great extent. At the consolidated level, ADPL recorded an operating income (OI) of ~Rs. 2,500 crore in FY2021 (provisional financials), marking a marginal growth in revenues over the previous fiscal. ADPL, at a consolidated basis, was able to report a strong improvement in operating profitability, with OPBDITA margin estimated to improve to ~11.7% in FY2021 (provisional financials) from 7.6% in FY2020. The operating profitability of the company's contract manufacturing operations was significantly healthier, aided by economies of scale and cost efficiency measures undertaken. Additionally, its marketing business benefitted from various cost efficiency measures and reported an operating profit in FY2021 (provisional financials) for the first time since its inception. ICRA expects the company to continue to report moderate to healthy revenue growth over the medium term, with the demand in the domestic pharmaceutical market expected to remain steady. Even as contract manufacturing operations are likely to report healthy profitability, its marketing business is anticipated to report a healthy growth in scale over the medium term, led by enhanced management focus and reorganisation efforts.

The ratings continue to favourably factor in the company's established track record as a leading contract manufacturer for major pharmaceutical companies. ADPL's strong customer relationships and product development strengths have enabled it to sustain its market share, despite the increase in competition after the implementation of the Goods and Services Tax (GST) (which led to dilution of excise exemption benefits at its key manufacturing sites). ADPL benefits from a diversified customer profile, with a predominant share of its business being derived from the domestic pharmaceutical companies. It continues to focus on gaining incremental business and increase its share of exports to further diversifying its revenue profile. The management decided to acquire Parabolic Drugs (API manufacturing capabilities; rechristened Akums Lifesciences Limited post the acquisition) to enhance its business profile. It remains on the lookout for opportunities to further expand presence in the API manufacturing space, since the Government of India is expected to lay greater emphasis on manufacturing APIs in the country owing to the impact of Covid-19. ICRA will continue to monitor any acquisitions/investments undertaken by the company in this regard, and its impact on ADPL's credit profile would remain a rating sensitivity.

The ratings remain constrained by the significant investment made by the entity in the marketing segment, material returns from which are only likely over the medium term. The company continues to remain exposed to regulatory risks, which may curtail growth of the domestic pharmaceutical market and moderate its revenue growth prospects. ADPL's ability to sustain its market share with well-established customer relationships, however, provides comfort.

The Stable outlook for the long-term rating reflects ICRA's expectation that ADPL would continue to maintain healthy credit profile over the medium term, aided by a steady demand outlook for the pharmaceutical sector and ADPL's well-established customer relationships for its contract manufacturing business. A gradual improvement in earnings from the marketing business is expected to support the overall credit profile.

Key rating drivers and their description

Credit strengths

Leading contract manufacturer in generic pharmaceutical industry with a strong clientele – ADPL is involved in providing contract manufacturing services to the pharmaceutical industry. Its ability to develop a wide variety of new formulations/delivery systems has enabled it to offer a large product portfolio and emerge as one of the largest contract manufacturers in the country. The company additionally benefits from its healthy customer relationships with leading pharmaceutical players such as Cipla Limited, Abbot Healthcare Private Limited and Sun Pharmaceuticals Industries Limited, among others, who form a strong clientele for the Group (ADPL and its subsidiaries).

Strong capital structure and debt coverage indicators – ADPL's financial risk profile is characterised by healthy cash accruals and comfortable debt coverage indicators. The company's conservative capital structure was further strengthened with receipt of ~Rs. 320.0 crore in November 2019, through equity infusion by Quadria Capital. The Group has a conservative capital structure reflected in a gearing of 0.04 times as on March 31, 2021. Its debt coverage indicators remain healthy with estimated Debt/OPBITDA of 0.1 times and interest coverage ratio of ~24 times in FY2021, which are anticipated to remain at similar levels over the medium term.

Diversified customer profile leading to limited customer concentration – The Group has maintained strong relationships with its clientele, which comprises pharmaceutical companies with a strong market presence. The company's client base is well diversified with its top 10 customers driving ~40% of its revenues in FY2021. Additionally, repeat contracts with most of its customers and the long development period involved in the industry owing to site audits, process validations, and technology transfers, provide comfort.

Credit challenges

Exposure to stiff competition in generic pharmaceutical industry – Most of ADPL's contract manufacturing business entails the production of generic formulations for various pharmaceutical companies. Meanwhile, the scale of speciality products such as hormones and cosmetics, remain relatively small. Despite being exposed to competitive headwinds, post the elimination of benefits available in excise/tax-free manufacturing zones with GST implementation, the company reported

strong improvement in operating profitability in FY2021 (OPM improved from 7.6% in FY2020 to ~11.7% in FY2021 (provisional financials)), aided by operating leverage benefits and cost efficiency measures. Additionally, its ability to sustain the market share with well-established customer relationships provides comfort.

Low geographical diversity with exports generating a limited share of revenues – ADPL's share of revenue from exports has remained primarily stable over the years at around 3-5%. At present, the company exports primarily to the semi-regulated markets of Vietnam, Malaysia, Venezuela and the Philippines, among others. However, the management is looking forward to increasing its share of exports in the near to medium term by penetrating the semi-regulated international pharmaceutical market. The presence of QC is likely to aid the company's initiatives in this regard.

Significant investments in various marketing subsidiaries, returns likely over medium-term – ADPL's management has created several separate marketing companies, over the years, to diversify its business profile. It has been extending loans and advances to these subsidiaries to meet their working capital as well as loss funding requirements. With material returns from these marketing forays only likely over the medium-term, the company's profitability and return indicators are expected to remain moderated to an extent.

Exposure to regulatory changes may curtail growth of the domestic pharmaceutical market – The growth of the domestic pharmaceutical industry has been impacted to an extent by regulatory interventions/policies, such as the ban on fixed dose combinations (FDCs). Regulatory changes such as the expanded National List of Essential Medicines (NLEM) could continue to have a negative bearing on the growth prospects of the industry and may constrain the Group's revenue growth prospects. Overall, even as demand in the pharmaceutical industry is likely to remain healthy, led by an increasing spend on healthcare and various Government launched healthcare policies, increased regulatory interventions remain a concern.

Liquidity position: Strong

Akum's liquidity position remains **strong**, characterised by expectation of strong cash accruals (~Rs. 220-250 crore/annum over the next three years) and marginal utilisation of working capital limits (average utilisation of ~0-5%, buffer of ~Rs. 210-220 crore). In FY2022, while the Group's debt repayment obligations remain low at ~Rs. 9.9 crore, it continues to have moderate capex plans of ~Rs. 80-90 crore (capex plans remain flexible and may be revised lower in line with demand). The company's strong cash accruals are expected to remain more than adequate to fund its debt servicing and capex obligations, while helping the entity maintain a strong liquidity profile.

Rating sensitivities

Positive factors – A strengthening of the company's business risk profile, aided by material diversification in the form of gain in business for exports or a healthy scale-up in revenue and profits from the marketing business, while continuing to maintain strong credit metrics, would be favourably considered for an upward movement in ratings.

Negative factors – ADPL's ratings could be downgraded if the company's operational and financial performance weakens with the increase in the competition in the domestic market. Significant deterioration in the Group's credit/liquidity profile led by debt-funded capex/acquisition could also trigger a rating downgrade. Specific credit metrics that may trigger a rating downgrade would include Total Debt/ EBITDA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Consolidation and Rating approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of ADPL and its subsidiaries – PCHPL, MLPL and MNL, while assigning the credit ratings, given the common management and significant operational and financial linkages among the entities. For arriving at the ratings, ICRA has considered the consolidated financials of ADPL. As on March 31, 2020, the company had 17 subsidiaries and an associate company, which are all enlisted in Annexure-2.

About the company

Incorporated in 2004, ADPL, along with its subsidiaries, is one of the leading contract manufacturers of formulations for the domestic as well as multinational pharmaceutical companies in India. The company is one of India's largest contract research and manufacturing (CRAMS) organisation manufacturing approximately 11-12% share of the overall drugs consumed in India.

ADPL has numerous manufacturing facilities located in Haridwar and Guwahati, of which some operate under its wholly-owned subsidiaries viz. Pure & Cure Healthcare Private Limited, Malik Lifesciences Private Limited and Maxcure Nutravedics Limited. The company has presence across pharmaceutical delivery systems and manufactures tablets, capsules, soft gelatin, dry syrup, liquid orals, injections - dry and liquid, pre-filled syringes and eye and ear drops, hormones, ointments, cosmetic, ayurvedic, herbal, nutraceuticals and other similar products. Since its incorporation, the company has successfully added large pharmaceutical companies (both Indian and multinational) to its customer base. The promoters have significant experience in the pharmaceutical industry. Over the years, the promoters have established various manufacturing and marketing pharmaceutical companies, in which ADPL holds a majority stake. Post the acquisition of Parabolic Drugs, the company also has presence in the API manufacturing segment.

In November 2019, QC purchased a 15.1% stake in ADPL for a total consideration of approximately Rs. 500.0 crore, of which ~Rs. 180.0 crore was paid to the promoters for secondary share purchase and ~Rs. 320.0 crore were invested in the company.

Key financial indicators (audited)

ADPL (Consolidated)	FY2019	FY2020	FY2021 (Prov.)
Operating Income (Rs. crore)	2,020.6	2,419.7	~2,500
PAT (Rs. crore)	70.6	44.8	
OPBDIT/OI (%)	10.1%	7.6%	~11.7%
PAT/OI (%)	3.5%	1.9%	
Total Outside Liabilities/Tangible Net Worth (times)	0.7	1.8	
Total Debt/OPBDIT (times)	1.3	1.1	0.1
Interest Coverage (times)	9.0	9.2	

Source: Company Annual Reports; ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: FY2021 data is provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in Jun 9, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Fund based- Working Capital Facilities	Long term	65.0	-	[ICRA]AA-(Stable)	[ICRA]A+ (Positive)	-	[ICRA]A+ (Stable)
2	Non-fund based- Working Capital Facilities	Short term	10.0	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
3	Fund-based/Non-fund based- Working Capital Facilities	Long term/Short term	20.0	-	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based- Working Capital Facilities	Simple
Non-fund based-Working Capital Facilities	Very Simple
Fund-based/Non-fund based-Working Capital Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Working Capital Facilities	NA	NA	NA	65.00	[ICRA]AA- (Stable)
NA	Non-fund based- Working Capital Facilities	NA	NA	NA	10.00	[ICRA]A1+
NA	Fund-based/Non-fund based-Working Capital Facilities	NA	NA	NA	20.00	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	ADPL Ownership	Consolidation Approach
Abbott Pharma limited (w.e.f 31 January 2020)	100%	Full Consolidation
Amazing Health Care Limited	77.21%	Full Consolidation
Akum Impex LLP (w.e.f 30 January 2020)	99.98%	Full Consolidation
Amazing Research Laboratories Ltd	100%	Full Consolidation
Delcure Lifesciences Ltd	100%	Full Consolidation
Malik Lifesciences (P) Ltd	100%	Full Consolidation
Maxcure Nutravedics Ltd	100%	Full Consolidation
May & Baker Pharmaceuticals Ltd	100%	Full Consolidation
Nicholas Healthcare Ltd	100%	Full Consolidation
Plenteous Pharmaceuticals Ltd	100%	Full Consolidation
Pure & Cure Healthcare (P) Ltd	100%	Full Consolidation
Unosource Pharma Ltd	99.89%	Full Consolidation
Upadrish Reserchem LLP	99.93%	Full Consolidation
Sarvagunaushdhi (P) Ltd	100%	Full Consolidation
Avha Lifesciences (P) Ltd.	100%	Full Consolidation
Medibox Digital Solutions (P) Ltd	60%	Full Consolidation
Cure Sure Pharma	77.21%	Full Consolidation
AUSL Pharma	40%	Equity Method

Source: ADPL annual report FY2020

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